

INTERSTATE DEPARTMENT STORES, INC.

(A DELAWARE CORPORATION)

NEW YORK, N. Y.

ANNUAL REPORT

YEAR ENDED

JANUARY 31, 1946

INTERSTATE DEPARTMENT STORES, INC.

DIRECTORS

ROBERT S. ADLER	R. C. KRAMER
IRA J. COLEMAN	WILL I LEVY
REAGAN P. CONNALLY	HAROLD F. LINDER
CHRISTIAN E. DAHLGREN	FRANK J. MELEY
CHARLES E. FEDERMAN	WILLIAM ONASCH
PAOLINO GERLI	ALBERT PARKER

HAROLD J. SZOLD

OFFICERS

<i>President</i>	REAGAN P. CONNALLY
<i>Chairman of the Board</i>	R. C. KRAMER
<i>Vice President</i>	IRA J. COLEMAN
<i>Vice President</i>	WILLIAM ONASCH
<i>Treasurer</i>	FRANK J. MELEY
<i>Secretary</i>	ALBERT PARKER
<i>Assistant Treasurer</i>	M. GRANT BERENS
<i>Assistant Secretary</i>	EDWARD C. SCHENKEL

<i>Transfer Agent</i>	BANK OF THE MANHATTAN COMPANY..New York
<i>Registrar</i>	THE COMMERCIAL NATIONAL BANK AND TRUST COMPANY
	New York
<i>General Counsel</i>	PARKER, CHAPIN AND FLATTAU.....New York
<i>Public Accountants</i>	S. D. LEIDESDORF & Co.New York
<i>Executive and General Offices</i> ..	111 EIGHTH AVENUE
	New York

APRIL 22, 1946

TO THE STOCKHOLDERS OF

INTERSTATE DEPARTMENT STORES, INC.

Submitted herewith are the Consolidated Financial Statements of the Company and its subsidiaries as at January 31, 1946, and for the fiscal year then ended.

Consolidated net profit for the year ended January 31, 1946, after Federal taxes on income, was \$1,055,689 compared with \$1,018,355 for the previous year which was equivalent to \$3.42 per share against \$3.30 per share on the same number of shares in the preceding year.

Consolidated net profit before Federal taxes on income was \$2,972,689 compared with \$3,668,355 for the preceding fiscal year.

During the fiscal year dividends of \$1.40 per share were paid on the common stock, compared with \$1.00 per share in the previous year.

Sales for the year ended January 31, 1946, were \$44,327,664 compared with \$42,909,615 in the previous year.

As of January 31, the ratio of current assets to current liabilities was 3.73 to 1 and net working capital was \$8,371,420 compared with a ratio of 3.82 to 1 and net working capital of \$7,588,125 in the previous year.

During the year the Company prepaid and redeemed all its \$2,840,000 3¾% Sinking Fund Debentures, due November 1, 1958. There was applied toward this redemption \$2,500,000 which was borrowed from Banks and which is to be repaid over ten years with interest at an average rate of 2.11% per annum.

Management again expresses its appreciation to the employees and officers of the Company for their fine efforts in the year that has passed.

Yours very truly,

REAGAN P. CONNALLY,

President.

INTERSTATE DEPAR
AND SUBSIDIA
CONSOLIDATED BALANCE

ASSETS

	As at January 31, 1946	As at January 31, 1945
CURRENT ASSETS:		
Cash on hand and in banks	\$ 4,434,683	\$ 4,248,691
U. S. Treasury Savings Notes—Series C (at cost) and accrued interest	530,221	94,905
Accounts Receivable:		
Customers	\$ 973,612	\$ 968,393
Less: Reserves	174,208	169,521
Other	250,566	166,029
Less: Reserve	4,399	3,500
Merchandise inventories—(Note A)	5,427,523	4,973,165
Total Current Assets	11,437,998	10,278,162
OTHER ASSETS:		
Post-war refund on Federal excess profits taxes	—	772,732
Miscellaneous other assets, less reserves	106,252	56,030
FIXED ASSETS—AT COST:		
Land	50,624	
Buildings	115,985	
Less: Reserve for depreciation	1,202	
	114,783	
Alterations and improvements to leased premises	447,366	473,581
Less: Reserve for depreciation	341,438	356,310
	105,928	117,271
Furniture and equipment	1,329,393	1,362,354
Less: Reserve for depreciation	635,249	637,132
	694,144	725,222
LEASEHOLDS	288,529	272,029
Less: Reserve for amortization	199,120	184,268
DEFERRED CHARGES	411,868	354,122
	<u>\$13,011,006</u>	<u>\$12,391,300</u>

The Notes to Financial Statements are an integral part of

MENT STORES, INC.

RY COMPANIES

SHEET AS AT JANUARY 31, 1946

LIABILITIES

	As at January 31, 1946	As at January 31, 1945
CURRENT LIABILITIES:		
Accounts payable—trade creditors (including liability for merchandise in transit)	\$1,644,783	\$1,420,270
Accrued salaries, interest and expenses	817,561	691,410
Accrued Federal taxes on income—(Note C)	\$2,061,167	\$2,959,783
Less: U. S. Treasury Savings Notes—Series C (at cost) and accrued interest	2,061,167	2,959,783
Accrued taxes—other—(Note C)	279,993	351,739
Sundry other liabilities	124,241	66,618
Long term debt—due within one year	200,000	160,000
Total Current Liabilities	3,066,578	2,690,037
LONG TERM DEBT:		
Notes payable—banks, due August 27, 1955—(Note B) ...	2,500,000	—
3¾% Sinking Fund Debentures—due November 1, 1958	—	2,840,000
Less: Amount due within one year	200,000	160,000
Total Liabilities	5,366,578	5,370,037

CAPITAL STOCK AND SURPLUS (Note B):

Common Stock—Without Par Value:

Authorized	320,000 Shares		
Issued and Outstanding	308,946 Shares	1,580,252	1,580,252
Capital Surplus—per Statement of Surplus		1,915,949	1,915,949
Earned Surplus—per Statement of Surplus		4,148,227	7,021,263
		<u>\$13,011,006</u>	<u>\$12,391,300</u>

this statement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED JANUARY 31, 1946

	For the Year Ended January 31, 1946		For the Year Ended January 31, 1945	
NET SALES:				
Own departments	\$38,995,710		\$37,714,356	
Leased departments	5,331,954	\$44,327,664	5,195,259	\$42,909,615
COST OF SALES, OPERATING AND ADMINISTRATIVE EXPENSES		40,999,575		38,949,881
		3,328,089		3,959,734
Less:				
Depreciation—buildings, alterations and improvements, fixtures and equipment	201,546		202,808	
Amortization—leaseholds	14,852	216,398	14,370	217,178
		3,111,691		3,742,556
OTHER INCOME—NET		92,258		79,140
		3,203,949		3,821,696
Less:				
Interest paid	100,429		153,341	
Premiums paid on retirement of long term debt	130,831	231,260	—	153,341
NET PROFIT, BEFORE PROVISION FOR FEDERAL TAXES ON INCOME...		2,972,689		3,668,355
PROVISION FOR FEDERAL INCOME TAXES	545,000		490,000	
PROVISION FOR FEDERAL EXCESS PROFITS TAXES	1,372,000	1,917,000	2,160,000	2,650,000
NET PROFIT—per Statement of Surplus		\$ 1,055,689		\$ 1,018,355

CONSOLIDATED STATEMENT OF SURPLUS
FOR THE YEAR ENDED JANUARY 31, 1946

	For the Year Ended January 31, 1946	For the Year Ended January 31, 1945
EARNED SURPLUS (Note B):		
Balance—beginning of period	\$3,525,062	\$2,815,653
Add: Net profit for the year ended January 31, 1946— 1945—per Statement of Profit and Loss	1,055,689	1,018,355
	4,580,751	3,834,008
Deduct: Dividends paid on Common Stock	432,524	308,946
Balance—end of period—per Balance Sheet	\$4,148,227	\$3,525,062
CAPITAL SURPLUS (Note B):		
Balance—beginning of period	\$1,915,949	\$1,915,949
Balance—end of period—per Balance Sheet	\$1,915,949	\$1,915,949

The Notes to Financial Statements are an integral part of these statements and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.
AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS
AS AT JANUARY 31, 1946

NOTE A—Merchandise inventories, as at January 31, 1946, which include merchandise in transit in the amount of \$579,536, are stated on the following bases which are consistent with those used in the preceding year:

At Stores —At the lower of cost, or market, as calculated by the retail method of inventory valuation, after provision for markdowns based on age of merchandise.

At Warehouses—At the lower of cost (substantially on the "First in, First out," basis) or replacement market.

In Transit —At specific invoice cost.

NOTE B—The loan agreement with respect to the long term debt contains certain restrictions on the right of the Company to declare dividends (other than stock dividends). As at January 31, 1946 approximately \$1,332,000 of the Company's surplus was not subject to such restrictions. The said amount will be increased or decreased primarily to the extent that future consolidated net income is in excess of or less than future dividend distributions.

The loan agreement further provides that on August 27 of each year payments of \$200,000 are required to be made on the loan.

NOTE C—The financial statements are subject to final determination of Federal, state and other taxes.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
INTERSTATE DEPARTMENT STORES, INC.,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1946 and the consolidated statements of profit and loss and surplus for the year then ended; have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Our examination of the merchandise inventories included a general review of the inventory procedures and records, including the retail inventory records, and tests to determine the mathematical accuracy of the inventory schedules. In addition, our representatives were present at the Company's principal warehouse as well as at certain stores, which we considered to be representative and which we selected for test purposes, to determine that the inventory procedures were carried out effectively and to make tests of the quantities in the inventory. We also communicated directly with vendors who are holding Company's merchandise pending delivery instructions from the Company. Our examination of the customers' accounts receivable included tests by direct communication with a selected number of customers at stores selected by us.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus, together with the Notes to Financial Statements, present fairly the consolidated position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1946, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & Co.

New York, N. Y.
April 2, 1946.

This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.